

MT. SAN ANTONIO COMMUNITY COLLEGE DISTRICT

Audit Report

HEALTH FEE ELIMINATION PROGRAM

Chapter 1, Statutes of 1984, 2nd Extraordinary Session,
and Chapter 1118, Statutes of 2006

July 1, 2003, through June 30, 2006



JOHN CHIANG
California State Controller

August 2007



JOHN CHIANG
California State Controller

August 31, 2007

Christopher C. O'Hearn, Ph.D.
President and Chief Executive Officer
Mt. San Antonio Community College District
1100 North Grand Avenue
Walnut, CA 91789

Dear Mr. O'Hearn:

The State Controller's Office audited the costs claimed by the Mt. San Antonio Community College District for the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, 2nd Extraordinary Session, and Chapter 1118, Statutes of 1987) for the period of July 1, 2003, through June 30, 2006.

The district claimed \$1,033,111 for the mandated program. Our audit disclosed that \$629,797 is allowable and \$403,314 is unallowable. The unallowable costs occurred because the district overclaimed indirect costs and understated offsetting revenues. The State did not make a payment to the district. The State will pay allowable costs claimed that exceed the amount paid, totaling \$629,797, contingent upon available appropriations.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at CSM's Web site, at www.csm.ca.gov (Guidebook link); you may obtain IRC forms by telephone, at (916) 323-3562, or by e-mail, at csminfo@csm.ca.gov.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/jj:vb

cc: Linda Baldwin

Director of Fiscal Services

Mt. San Antonio Community College District

Marty Rubio, Specialist

Fiscal Accountability Section

California Community Colleges Chancellor's Office

Jeannie Oropeza, Program Budget Manager

Education Systems Unit

Department of Finance

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the Mt. San Antonio Community College District for the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, 2nd Extraordinary Session, and Chapter 1118, Statutes of 1987) for the period of July 1, 2003, through June 30, 2006. The last day of fieldwork was March 5, 2007.

The district claimed \$1,033,111 for the mandated program. Our audit disclosed that \$629,797 is allowable and \$403,314 is unallowable. The unallowable costs occurred because the district overclaimed indirect costs and understated offsetting revenue. The State will pay allowable costs claimed that exceed the amount paid, totaling \$629,797, contingent upon available appropriations.

Background

Chapter 1, Statutes of 1984, 2nd Extraordinary Session (E.S.) repealed Education Code section 72246, which authorized community college districts to charge a health fee for providing health supervision and services, providing medical and hospitalization services, and operating student health centers. This statute also required that health services for which a community college district charged a fee during fiscal year (FY) 1983-84 had to be maintained at that level in FY 1984-85 and every year thereafter. The provisions of this statute would automatically sunset on December 31, 1987, reinstating the community college districts' authority to charge a health service fee as specified.

Chapter 118, Statutes of 1987, amended Education Code section 72246 (subsequently renumbered as Section 76355 by Chapter 8, Statutes of 1993). The law requires any community college district that provided health services in FY 1986-87 to maintain health services at the level provided during that year in FY 1987-88 and each fiscal year thereafter.

On November 20, 1986, the Commission on State Mandates (CSM) determined that Chapter 1, Statutes of 1984, 2nd Extraordinary Session imposed a "new program" upon community college districts by requiring specified community college districts that provided health services in FY 1983-84 to maintain health services at the level provided during that year in FY 1984-85 and each fiscal year thereafter. This maintenance-of-effort requirement applied to all community college districts that levied a health service fee in FY 1983-84.

On April 27, 1989, the CSM determined that Chapter 1118, Statutes of 1987, amended this maintenance-of-effort requirement to apply to all community college districts that provided health services in FY 1986-87, requiring them to maintain that level in FY 1987-88 and each fiscal year thereafter.

Parameters and Guidelines establishes the state mandate and defines reimbursement criteria. CSM adopted *Parameters and Guidelines* on August 27, 1987, and amended it on May 25, 1989. In compliance with Government Code section 17558, the SCO issues claiming instructions for mandated programs to assist school districts in claiming reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Health Fee Elimination Program for the period of July 1, 2003, through June 30, 2006.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the costs claimed were supported.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, Mt. San Antonio Community College District claimed \$1,033,111 for costs of the Health Fee Elimination Program. Our audit disclosed that \$629,797 is allowable and \$403,314 is unallowable. The State did not make a payment to the district. The State will pay allowable costs claimed that exceed the amount paid, totaling \$629,797, contingent upon available appropriations.

Views of Responsible Official

We issued a draft audit report on May 16, 2007. Linda Baldwin, Director of Fiscal Services, responded by e-mail dated July 18, 2007 (Attachment), agreeing with the audit results for Finding 2. This final audit report includes the district's response. The district did not respond to Findings 1 or 3.

Restricted Use

This report is solely for the information and use of the Mt. San Antonio Community College District, the California Community Colleges Chancellor's Office, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

Schedule 1— Summary of Program Costs July 1, 2003, through June 30, 2006

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2003, through June 30, 2004</u>				
Health services costs:				
Salaries and benefits	\$ 497,946	\$ 497,946	\$ —	
Services and supplies	83,845	83,845	—	
Indirect costs	<u>172,116</u>	<u>189,219</u>	<u>17,103</u>	Finding 1
Total health services costs	753,907	771,010	17,103	
Less authorized health fees	(432,960)	(433,854)	(894)	Finding 2
Less offsetting savings/reimbursements	<u>—</u>	<u>(57,579)</u>	<u>(57,579)</u>	Finding 3
Total program costs	<u>\$ 320,947</u>	<u>279,577</u>	<u>\$ (41,370)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 279,577</u>		
<u>July 1, 2004, through June 30, 2005</u>				
Health services costs:				
Salaries and benefits	\$ 533,251	\$ 533,251	\$ —	
Services and supplies	69,582	69,582	—	
Indirect costs	<u>236,230</u>	<u>202,635</u>	<u>(33,595)</u>	Finding 1
Total health services costs	839,063	805,468	(33,595)	
Less authorized health fees	(438,051)	(439,281)	(1,230)	Finding 2
Less offsetting savings/reimbursements	<u>—</u>	<u>(15,967)</u>	<u>(15,967)</u>	Finding 3
Total program costs	<u>\$ 401,012</u>	<u>350,220</u>	<u>\$ (50,792)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 350,220</u>		
<u>July 1, 2005, through June 30, 2006</u>				
Health services costs:				
Salaries and benefits	\$ 537,074	\$ 537,074	\$ —	
Services and supplies	26,658	26,658	—	
Indirect costs	<u>204,088</u>	<u>204,088</u>	<u>—</u>	
Total health services costs	767,820	767,820	—	
Less authorized health fees	(456,668)	(958,226)	(501,558)	Finding 2
Less offsetting savings/reimbursements	<u>—</u>	<u>(17,602)</u>	<u>(17,602)</u>	Finding 3
Adjustment to eliminate negative balance	<u>—</u>	<u>208,008</u>	<u>208,008</u>	Finding 2
Total program costs	<u>\$ 311,152</u>	<u>—</u>	<u>\$ (311,152)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		

Schedule 1 (continued)

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustment</u>	<u>Reference ¹</u>
<u>Summary: July 1, 2003, through June 30, 2006</u>				
Health services costs:				
Salaries and benefits	\$ 1,568,271	\$ 1,568,271	\$ —	
Services and supplies	180,085	180,085	—	
Indirect costs	<u>612,434</u>	<u>595,942</u>	<u>(16,492)</u>	Finding 1
Total health services costs	2,360,790	2,344,298	(16,492)	
Less authorized health fees	(1,327,679)	(1,831,361)	(503,682)	Finding 2
Less offsetting savings/reimbursements	—	(91,148)	(91,148)	Finding 3
Adjustment to eliminate negative balance	<u>—</u>	<u>208,008</u>	<u>208,008</u>	Finding 2
Total program costs	<u>\$ 1,033,111</u>	629,797	<u>\$ (403,314)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 629,797</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Indirect costs overclaimed

The district overclaimed indirect costs by \$16,492.

For fiscal year (FY) 2003-04, the district applied the federally approved indirect cost rate of 44.3% (approved for claims filed from July 1999 through June 2003) to direct salary costs instead of 38% (approved for claims filed from July 2003 through June 2007) to direct salary and benefit costs. The approval letter from the U.S. Department of Health and Human Services, dated May 13, 2003, states that the indirect cost rate was developed using a base of direct salaries and wages including all fringe benefits. This error resulted in the district underclaiming costs by \$17,103.

For FY 2004-05, the district applied the federally approved indirect cost rate of 44.3% instead of 38% to direct salary and benefit costs. This error resulted in the district overclaiming costs by \$33,595.

The following table summarizes the overclaimed indirect costs.

	Fiscal Year		Total
	2003-04	2004-05	
Allowable salaries and benefits	\$ 497,946	\$ 533,251	
Times allowable indirect rate	× 38%	× 38%	
Allowable indirect costs	189,219	202,635	\$ 391,854
Less claimed indirect costs	(172,116)	(236,230)	(408,346)
Audit adjustment-understated/ (overstated) indirect costs	<u>\$ 17,103</u>	<u>\$ (33,595)</u>	<u>\$ (16,492)</u>

Parameters and Guidelines states that indirect costs may be claimed in the manner described in the SCO claiming instructions. The SCO claiming instructions state that community college districts using an indirect cost rate proposal (ICRP) prepared in accordance with Office of Management and Budget (OMB) Circular A-21 must obtain federal approval of the ICRP.

The SCO's *Mandated Cost Manual* states that indirect costs must be distributed to benefiting cost objectives on bases that produce an equitable result in relation to the benefits derived by the mandate.

The OMB Circular A-21 methodology allows colleges and universities to calculate their indirect cost rate under the simplified method using either salaries and wages or modified total direct costs. The district's indirect cost rate was proposed and negotiated based on salaries and wages including all fringe benefits, not on modified total direct costs. The appropriate rate application base is shown on the rate agreement. The district must adhere to its rate agreement in claiming reimbursement of indirect costs.

Recommendation

We recommend that the district ensure that the OMB Circular A-21 indirect cost rate is applied only to the costs included in the base of the indirect cost rate calculation. In addition, the district should ensure that it applies the correct indirect cost rates.

District's Response

The district did not respond to this finding.

SCO's Comment

The finding and recommendation remain unchanged.

**FINDING 2—
Understated
authorized health fee
revenues claimed**

The district understated authorized health fee revenue by \$503,682 for the audit period.

The district provided us with student counts from the enrollment analysis by semester. Effective Fall 2005, the health services were offered to all students (including credit and noncredit students). As health center fees could still be charged even if a student were only taking a noncredit course, we included both credit and noncredit student counts in our recalculations of Fall 2005 and Spring 2006 authorized health fee revenues.

We obtained student fee waiver information from the Financial Aid BOGG Posting Reports provided by district's financial aid office. We recalculated the BOGG waiver counts by excluding military veterans and Medal of Honor recipients because they are not exempted by law from paying health fees. In addition, BOGG students are no longer exempted from paying health fees effective January 1, 2006. For the spring 2006 semester, the BOGG waiver students were counted as students eligible to pay health fees.

The following table summarizes the calculation of understated authorized health fee revenues.

	<u>Fall</u>	<u>Spring</u>	<u>Summer</u>	<u>Total</u>
<u>FY 2003-04</u>				
Student enrollment	24,506	23,565	11,946	
Less allowable health fee exceptions	<u>(8,921)</u>	<u>(8,595)</u>	<u>(4,480)</u>	
Subtotals	15,585	14,970	7,466	
Authorized student health fee	<u>× \$12.00</u>	<u>× \$12.00</u>	<u>× \$ 9.00</u>	
Audited authorized health fee revenues	<u>\$187,020</u>	<u>\$179,640</u>	<u>\$ 67,194</u>	\$433,854
Claimed authorized health fee revenues				<u>(432,960)</u>
Audit adjustment, FY 2003-04				<u>894</u>
<u>FY 2004-05</u>				
Student enrollment	24,103	23,059	11,687	
Less allowable health fee exceptions	<u>(9,492)</u>	<u>(9,393)</u>	<u>(4,519)</u>	
Subtotals	14,611	13,666	7,168	
Authorized student health fee	<u>× \$13.00</u>	<u>× \$13.00</u>	<u>× \$10.00</u>	
Audited authorized health fee revenues	<u>\$189,943</u>	<u>\$177,658</u>	<u>\$ 71,680</u>	439,281
Claimed authorized health fee revenues				<u>(438,051)</u>
Audit adjustment, FY 2003-04				<u>1,230</u>

	Fall	Spring	Summer	Total
<u>FY 2005-06</u>				
Student enrollment	35,783	36,049	13,675	
Less allowable health fee exceptions	<u>(9,750)</u>	<u>—</u>	<u>(5,577)</u>	
Subtotals	26,033	36,049	8,098	
Authorized student health fee	<u>× \$14.00</u>	<u>× \$14.00</u>	<u>× \$11.00</u>	
Audited authorized health fee revenues	<u>\$364,462</u>	<u>\$504,686</u>	<u>\$ 89,078</u>	958,226
Claimed authorized health fee revenues				<u>(456,668)</u>
Audit adjustment, FY 2003-04				<u>501,558</u>
Total audit adjustment				<u>\$503,682</u>

Parameters and Guidelines states that health fees authorized by Education Code must be deducted from costs claimed. Education Code section 76355(c) states that health fees are authorized from all student except those students who: (1) depend exclusively on prayer for healing; (2) are attending a community college under an approved apprenticeship training program; or (3) demonstrate financial need. Effective January 1, 2006, BOGG grants are no longer an exclusion in calculating authorized health service fees per Chapter 320, Statutes of 2005 (Education Code section 76355(c)(3) was deleted).

Government Code section 17514 states that costs mandated by the State are any increased costs that a district is required to incur. To the extent community college districts can charge a fee, they are not required to incur a cost. In addition, Government Code section 17556 states that COSM shall not find costs mandated by the State if the district has the authority to levy fees to pay for the mandated program or increased level of services.

Recommendation

We recommend that the district ensure that allowable health services program costs are offset by the amount of health service fee revenue authorized by the Education Code.

District's Response

Per our discussion on Monday, July 17, 2007, I no longer wish to respond to Finding #2 of our Health Fee Elimination Program Audit.

Per the audit finding, effective with the Fall 2005 semester, Mt. SAC's Health Center offered services to noncredit students for a fee for service. Because we offered services to noncredit students, we could have collected a health fee; therefore the number of noncredit students should have been included in the calculation.

Upon researching this issue, I no longer disagree with this finding. I spoke directly with Marty Rubio at the State Chancellor's Office, as it was stated during the audit, that this decision was based on information received by her. She in turn spoke with Ralph Black regarding this issue to verify that her original email opinion was accurate. Ralph Black stated that it has "always" been allowable to charge noncredit students the health fee.

As part of my research, I reviewed old Student Fee Handbooks and this issue was silent, which may be why most districts were under the impression that charging noncredit students a health fee was not allowed. The new Student Fee Handbook, as of October 31, 2006, clarifies this issue and states clearly the following: “Generally speaking, the fee may be charged of all students, whether or not they choose to use the health services. Districts may choose to charge or exempt noncredit students at their discretion.”

As a result of this finding, we will include the noncredit student enrollment count in our calculation for future Health Fee Elimination claims.

SCO’s Comment

The finding and recommendation remain unchanged.

FINDING 3— Offsetting revenues understated

The district understated offsetting revenues by \$91,148 for the audit period.

The district collected, in addition to health fees, interest and investment income recorded in revenue account number 8860 and clinical receipts recorded in revenue account number 8890. However, these revenues were not claimed as offsetting reimbursements during the audit period.

The following table summarizes the understated offsetting revenues.

	Fiscal Year			Total
	2003-04	2004-05	2005-06	
Interest and investment income	\$ (11,593)	\$ (15,967)	\$ (17,602)	\$ (45,162)
Local revenue	(45,986)	—	—	(45,986)
Audit adjustment	<u>\$ (57,579)</u>	<u>\$ (15,967)</u>	<u>\$ (17,602)</u>	<u>\$ (91,148)</u>

Parameters and Guidelines specifies that any offsetting savings or reimbursement received by the district from any source as a result of the mandate must be identified and deducted so that only net district health services costs are claimed.

Recommendation

We recommend that the district ensure that all applicable revenues are offset on its claims against its mandated program costs.

District’s Response

The district did not respond to this finding.

SCO’s Comment

The finding and recommendation remain unchanged.

**OTHER ISSUE—
Student enrollment
count**

The district's response also addressed the following issue. The SCO's Comment immediately follows the district's response.

District's Response

The district requested clarification and direction as to when during the semester should the student enrollment be counted as student enrollment changes on a daily basis.

SCO's Comment

The district should determine student enrollment in a manner that it believes represents actual enrollment. The California Community Colleges Chancellor's Office should be able to assist the district in making this determination. During the audit process, we review the reasonableness of the district's methodology.

**Attachment—
District's Response to
Draft Audit Report**

From: Linda Baldwin [LBaldwin@MtSAC.edu]
Sent: Wednesday, July 18, 2007 11:22 AM
To: Luna, Art
Cc: Chan, Janny; Spano, Jim; Sandra Samples; Michael Gregoryk; jnixon@mtsac.edu; ayamagat@mtsac.edu; rroyce@mtsac.edu; harmeet@calsdrc.com
Subject: Health Fee Elimination Audit

Art,

Per our discussion on Monday, July 17, 2007, I no longer wish to respond to Finding #2 of our Health Fee Elimination Program Audit.

Per the audit finding, effective with the Fall 2005 semester, Mt. SAC's Health Center offered services to noncredit students for a fee for service. Because we offered services to noncredit students, we could have collected a health fee; therefore the number of noncredit students should have been included in the calculation.

Upon researching this issue, I no longer disagree with this finding. I spoke directly with Marty Rubio at the State Chancellor's Office, as it was stated during the audit, that this decision was based on information received by her. She in turn spoke with Ralph Black regarding this issue to verify that her original email opinion was accurate. Ralph Black stated that it has "always" been allowable to charge noncredit students the health fee.

As part of my research, I reviewed old Student Fee Handbooks and this issue was silent, which may be why most districts were under the impression that charging noncredit students a health fee was not allowed. The new Student Fee Handbook, as of October 31, 2006, clarifies this issue and states clearly the following: "Generally speaking, the fee may be charged of all students, whether or not they choose to use the health services. Districts may choose to charge or exempt noncredit students at their discretion."

As a result of this finding, we will include the noncredit student enrollment count in our calculation for future Health Fee Elimination claims.

Also, another issue that came up during the audit that I would like some clarification and direction, is as follows: At what point during the semester should the student enrollment count be taken? As we discussed, student enrollment changes on a daily basis. We would appreciate this clarification, so we can be in agreement for future claims.

Thank you for your help and patience during this process.

Linda

Linda M. Baldwin
Director, Fiscal Services
Mt. San Antonio College
(909) 594-5611, Ext. 5517

**State Controller's Office
Division of Audits
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